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OFFICE OF INFORMATION TECHNOLOGY

PERFORMANCE BASED COMPENSATION

SUMMARY

The Director of Information Technology, Directorate for Administration, established a task force on 13 August 1985 to review the present General Schedule (GS) for employee compensation and to recommend feasible alternatives if the present system was found inadequate. The following provides a summary of the Task Force efforts.

The Task Force reviewed the GS system and the experimental compensation systems adopted by the Office of Communications, CIA; the Naval Weapons Center, China Lake, California; and the Naval Ocean Systems Center, San Diego, California. In addition, briefings and interviews were held by the Task Force with Office of Information Technology (OIT) Group representatives to solicit their views on the GS system, to discuss alternative compensation systems, and to familiarize Task Force members with the Office. The Task Force reviewed all position descriptions to categorize jobs and to identify common or similar tasks performed throughout the Office.

The results of these efforts confirmed the need for an alternative to the GS System. The proposed system will aggregate several GS grades into broad pay bands (Levels). The Task Force recommends the following:

1. Replace the GS system, in OIT, with a compensation system based upon individual performance.
2. Replace the existing job classification system with an automated system that is standardized, more meaningful, and less time-consuming.
3. Enhance the existing personnel evaluation system.
4. Place the responsibility to recommend appropriate employee compensation at the lower levels of line-management.

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The adoption of these recommendations will provide a compensation system closely linked to a classification and performance evaluation system that will be more flexible, manageable, and understandable.

METHODOLOGY

The Task Force participated in an intensive series of briefings by representatives from all major components in OIT. Representatives from the Office of Communications (O/C) also were invited to share with Task Force members their experience in the O/C "Pay Banding" effort. During the briefing phase, we discovered a pattern of managerial complaints about the GS system. The foremost complaint was the lack of qualified staff to accomplish the mission of the Office. The shortage of personnel was attributed, in part, to the inflexibility of the GS system in allowing OIT managers to attract and retain competent people. Furthermore, GS compensation is based upon the grade of a specific slot and the passage of "good times", rather than upon individual performance in the job. The findings of the Task Force are defined as follows:

1. The present GS system is not flexible enough to meet CIA's rapidly changing need for the sophisticated skills used in OIT.
2. The GS compensation system is based upon "job", not upon individual performance.
3. The GS schedule often rewards mediocre performance the same rate as superior performance.
4. Extensive managerial action is required to provide appropriate compensation to exceptional employees.
5. The current position classification and reclassification procedures are cumbersome and time consuming.
6. Technical employees must acquire management responsibilities in order to advance beyond certain grade levels. There is little inducement to further develop technical knowledge and skills, and

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yet such skills are unavailable in the marketplace at GS rates of compensation.

7. Rigidity of the GS system inhibits effective competition with private industry in Office recruiting efforts.
8. Compensation authority and responsibility are removed from line managers.

After reviewing the above findings, the Task Force concluded that the perceived problems with the GS system justified consideration of an alternative compensation system.

Following the preliminary review, the Task Force identified these goals and objectives:

1. Develop an equitable compensation system that focuses on recognizing and rewarding performance rather than longevity.
2. Retain and enhance the competitive promotion process.
3. Encourage employee initiative by recognizing superior performance.
4. Encourage employees to obtain and develop additional skills and knowledge that are needed to qualify for promotion.
5. Provide monetary recognition of employees with advanced skills in a specialty area.
6. Place responsibility for compensation of employees in the hands of first-line managers.
7. Simplify and standardize the position classification and reclassification system.
8. Develop an objective performance based evaluation system.

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9. Develop a clearly defined guide for employees and supervisors who seek or provide advice and guidance in career development.

RECOMMENDATIONS

After examining and analyzing the concept of banding; previous banding experiments; OIT position descriptions, job functions, titles, and classifications; and OIT performance evaluation tools and procedures; the Performance Based Compensation Task Force makes the following recommendations:

1. Replace the General Schedule (GS) system in OIT with a compensation system based upon individual performance rather than job classification slots. The new compensation system will incorporate all OIT personnel in the current GS-05 through GS-15 grades. Secretarial personnel will be compensated under the Agency secretarial compensation system currently being developed by the Office of Personnel.
2. Enhance the existing personnel evaluation system to provide adequate compensation to employees whose performance deserves recognition. Develop performance objectives that are tied to organizational effectiveness.
3. Place more responsibility for appropriate employee compensation (pay increases, promotions, and bonuses) at the line-management level.
4. Replace the existing job classification system with an automated system that is more flexible, manageable, and understandable. The traditional position description (PD) system is confusing and complex; to a large extent it diminishes the manager's role in setting pay and gives position classifiers an inordinate level of authority.

The increased responsibility, flexibility, and accountability for managers should lead to more productive use of resources and higher levels of organizational effectiveness.

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PROPOSAL

The Task Force proposes the following framework for the OIT Performance Based Compensation system (See Figure 1, page 11A).

All Office positions in the GS-08 through the GS-15 grade range will be categorized into one of the following Career Tracks:

1. Management

Responsible for the allocation, application and direction of resources (money, people, space, and materials) to accomplish organizational needs.

2. Operations

Responsible for continuous monitoring and control of the hardware and software that comprise Office-supported information processing and telecommunications systems.

3. Administrative

Responsible for providing support services in the areas of finance, logistics, personnel, and security and general administrative support for training, travel, policy development and interpretation.

4. Technical

Responsible for engineering, analysis, and maintenance of hardware and physical equipment for telecommunications and information processing systems.

5. Specialist

Responsible for the software system life cycle (from requirements, analysis, and development to implementation and maintenance), database and systems administration, telecommunications, and ADP training and consulting.

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In the PBC system, there are five broad pay groupings, or Levels (See Figure 1, page 21A). Each career Track contains four Levels, with the fifth Level (the Development Level) being used as a feeder to the five Tracks. Generally, employees in the Development Level are new employees who will progress to Level I in one of the five career Tracks. However, the Task Force recognizes that some employees will choose to remain in positions in the Development Level. These employees will be eligible for increments based upon their performance.

The Levels and comparable GS grade salary ranges for each Level are as follows:

1. Development Level carries the title of Generalist, GS-05 through GS-08.
2. Level I carries the title of Assistant in the occupational specialty, GS-07 through GS-10.
3. Level II carries the title of Associate in the occupational specialty, GS-09 through GS-12.
4. Level III carries the title of the occupational specialty, GS-11 through GS-14.
5. Level IV carries the title of Senior in the occupational specialty, GS-13 through GS-15.

The two middle grades in each Level are considered the "core". They will be used for conversion of Office personnel from the GS schedule to the Performance Based Compensation System and for placing future Office personnel into Levels. For example, a GS-09 could theoretically convert to Level I or Level II based upon the grade span. Since the core for Level I is GS-08/GS-09, and that of Level II is GS-10/GS-11, the GS-09 would be converted to Level I. The intent of the salary overlap between Levels is to provide flexibility in personnel recruitment and retention. The overlap enables a manager to compensate a person whose performance and value to the organization exceeds the core of his Level when there is no headroom at the next Level. He may be awarded increments at his current Level commensurate with a promotion. If recent college graduates or other potential employees learn that

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their pay will increase to keep pace with their performance and responsibilities, it will serve as a very effective Office recruiting tool. Figure 1, page 11A, is a chart showing how the OIT Career Tracks and Compensation System will work. The job titles on the chart are representative of positions falling within a Track. The Development Level provides a feeder to the five Career Tracks. This allows for early orientation, training, and preparation for movement into a specific discipline. The arrows show how movement can be effected. In theory, an Administrative Assistant could become an Engineer in Level I or Level II if entrance criteria were met. This same employee could move into the Management Track at some Level and gain the opportunity to enter the SIS ranks. The first Level of the Management Track is reserved for Career Trainees (CTs). The other four Tracks will feed the Management Track and, in turn, the Management Track will provide the Senior Intelligence Service (SIS) with representatives from this Office. There may be exceptions to this rule if SIS positions are established for distinguished engineers, scientists, programmers, etc. It is anticipated that Level IV of the Administrative Track will be filled mainly by MG careerists or other DDA specialists.

Each Level comprises increments that each represent about a 1.5 percent salary increase. The Development Level and Levels I through III have 45 increments, and Level IV has 35 increments. The 1.5 percent increment was designed to provide a correlation with the GS Periodic Step Increase (PSI), which is 3 percent of the base salary.

The proposed position classification system will use the five classification Levels and encompass the five Career Tracks. The system will emphasize individual performance while retaining job performance distinctions. Input received from Office managers has confirmed the need to recognize individual performance. Existing standards are considered too complex, rigid, and not representative of the actual work being performed in OIT. The Task Force has attempted to simplify and standardize the traditional position descriptions (PDs) while retaining the option of making them as specific as necessary to provide for unique qualifications, tasks, or types of work. Current procedures place the classification responsibility almost entirely in the Office of Personnel. The Task Force recommends involvement of the first-line supervisor in classifying positions in order to enhance the equity and utility of the classification process. To achieve this involvement, a simpler, more understandable and less time-consuming classification system must be designed.

The approach that is recommended to simplify the position classification system is to prepare one set of

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PMCD-approved standards for each Level in each Track. The standards for each Level under PBC have been developed from current Office position descriptions that PMCD has approved. Then, position classifications will be made by reference to the sanctioned position descriptions. The new standards clearly delineate those factors critical to position classification and are written in a format similar to that of a traditional PD. A comprehensive compilation of typical duties, responsibilities and level of difficulty of work at each Level is listed in a "menu" format. An individual description of work may be determined by making specific menu selections from the classification standard for a given Level and Track. Computerization of the classification standards will provide an automatic listing of selected menu items and a printout of the specific description of work.

The new position descriptions are intended to be "living" documents that will be flexible and adaptable as the complexion of work changes. When all the new classification standards are computerized, each PD will be identified uniquely by a special code and stored for record purposes. Therefore, the new classification system lends itself readily to analysis. For instance, it will be easy to ascertain from the computer database how often individual menu items appear. The relative complexion of an organizational unit could be evaluated by computer data analyses of the respective menu selections. Position and personnel mobility will be increased with the new classification system because similar work is easier to recognize and PDs are more quickly prepared and approved in personnel rotations and reassignments.

The classification standards for each Level will be available to all OIT personnel. These standards will make clear distinctions between Levels I, II, III, and IV work and can serve as a career planning guide. This guide can be useful in setting both short and long-range individual career development plans.

Personnel Evaluation System

Appendix A of the full report contains a document that explains in detail the personnel evaluation system and how it operates.

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Steps Prior to Implementation

Once the necessary approvals are obtained, the following items must be addressed and resolved prior to the implementation of the Performance Based Compensation System:

1. Validate the Position Classification System Standards. The Task Force developed the standards for the position classification system from the current Office position descriptions. Office managers should review the standards to verify their validity and to provide specific input in the following areas:

- a) Optional and required training requirements.
- b) Knowledge and skills required for specific jobs.
- c) Refinement of sections containing duties and responsibilities, impact of the position, creativity, supervision required (including OIT/PMCD negotiated agreement on the Level standards).

2. Develop the Automated Position Classification System.

The Task Force has outlined the Automated Position Classification System, but it must be developed. Office personnel can design and write this system.

3. Establish evaluation system procedures.

The structure and scope of group career boards must be defined. Managerial guidelines for the competitive promotion process must be drawn up for line managers to follow. Entry requirements for each level must be refined. Management's guidelines for increment and bonus distribution must be detailed.

4. Convert OIT personnel and slots to the PBC system.

Guidelines for the placement of OIT people and positions into the PBC system must be written. Most

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positions clearly fit PBC Track definitions, but the duties and responsibilities of some span two or more Tracks.

5. Market the OIT PBC concept.

Although there are some similarities between the PBC and the GS systems, many aspects of the PBC system are different. All OIT employees should understand the concept of the PBC system. Managers must fully understand the PBC system in order to exercise increased budget responsibilities

FIRST YEAR CONVERSION COSTS

The following summarizes the results of a cost comparison between the Performance Based Compensation (PBC) system and the existing General Schedule (GS) system. The estimated additional cost of the PBC system is less than \$250,000 in the conversion year. This difference should further decrease to less than \$100,000 in the second year. These costs are based on OIT historical data, such as promotion rates and Performance Appraisal Report (PAR) ratings. A detailed description of the methodology and other supporting data are available from the OIT Management Division.

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The first-year cost of the PBC may be estimated by adding three components to the cost of the GS system in the year immediately prior to conversion. First, there is the immediate cost to convert the approximately MZ careerists from the GS system to PBC. (The remainder of the OIT positions are encumbered by non-MZ career service personnel who probably will be paid under the payment system used by their "home" service.) This cost is incurred "day one" and derives from the absence of an exact grade/step and level/increment conversion (rounding up to the next highest increment will take place.) The second factor is the cost of promotions under the PBC system. An estimated promotions will occur annually under PBC. They will be valued at between five and six increments (the average increment value is \$520.) The third factor is based on the cost of the performance-oriented increments. Employees will receive between zero and four increments annually. A method of estimating the distribution of increments was developed by the task force based on the existing distribution of Performance Appraisal Report ratings in OIT (e.g., a percentage of employees receive a PAR rating of six or seven and will receive four increments annually.) The above three factors add to an estimated additional first-year

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cost of [] and second year cost of approximately [] both with respect to the cost of the GS system in the year immediately prior to conversion.

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A similar methodology was used to estimate the hypothetical first-year and second-year cost under the GS system. Two factors come into play in this case: promotions and periodic (and quality) step increases (PSI/QSI's.) Based on historical data, an estimated 60 percent of [] MZ careerists will be promoted annually. Furthermore, it is estimated that 50 percent of the [] MZ careerists will receive a QSI/PSI. Assuming average dollar values for promotions and steps, these calculations result in a first-year incremental cost of approximately [] and a second year incremental cost of approximately [] both with respect to the pre-conversion year cost.

Thus, the bottom-line incremental cost of the PBC vs. the GS system results from netting the above two estimates. The first year cost will be less than \$250,000; the second year cost less than \$100,000. The small additional cost of the PBC system should, of course, be compared to the expected benefits of the system. In particular, the PBC system will foster a high level of motivation, and afford managers enhanced flexibility in keeping pace with compensation in the highly competitive information technology industries.

OIT CAREER TRACK AND COMPENSATION SYSTEM

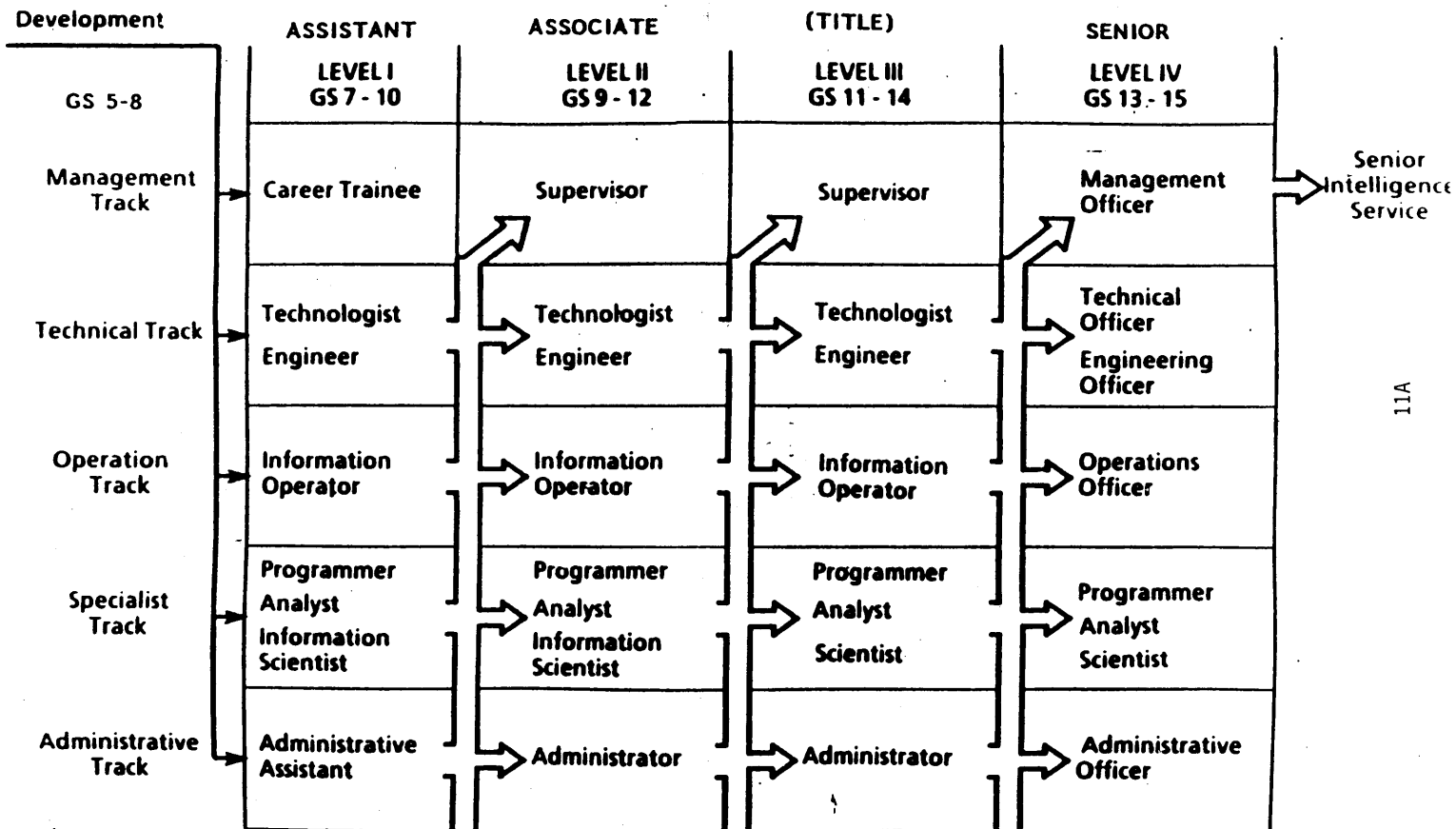


Figure 1